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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

24 MAR 1976

Honorable Nelson A. Rockefeller
President of the Senate
Washington, D.C. 20510

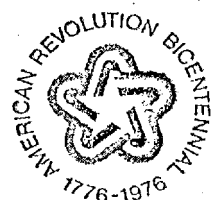
Dear Mr. President:

This letter transmits for the consideration of the Congress a draft bill to amend the Central Intelligence Agency Retirement Act of 1964 for Certain Employees, as amended, which implements the President's recommendations in his message of 24 March 1976 that the one percent add-on in annuity adjustments be repealed.

The proposed bill alters the formula for computing cost-of-living adjustments to retirement annuities authorized by the Act. The original 1964 CIA Retirement Act provision authorizing cost-of-living adjustments was based upon a 1962 amendment to the Civil Service retirement system. The formula for computation of the adjustment was altered in 1969 for both the Civil Service and CIA Retirement Acts, by authorizing the addition of an extra one percent of the base annuity to each cost-of-living increase. The rationale for this bonus was to compensate retirees for the built-in delay between the actual increase in their cost-of-living, reflected in the monthly Consumer Price Index figures, and the date their annuities are increased to compensate for the rise.

In practice, however, the extra one percent has overcompensated annuitants. Since November 1969, the Consumer Price Index has risen 50 percent, while Federal annuities tied to the index have risen 63 percent. The fundamental problem with the one percent feature is that it corrects a temporary problem (a maximum few months delay in cost-of-living increases) with permanent compensation. The one percent figure continues to be paid to annuitants or their survivors long after it has offset their temporary loss.

The CIA Retirement System can no longer afford the luxury of the one percent bonus. The drain on retirement funds because of the cost-of-living increases has been unprecedented. The one percent add-on feature is an unreasonable windfall which adds dramatically to the drain of retirement funds. I have attached an estimate of the savings to the CIA retirement fund which passage of this legislation would occasion.



While similar legislation eliminating the one percent add-on is being proposed for all Federal retirement systems, the CIA system has lagged behind the other major systems in a number of important areas. A proposal to equalize benefits in the CIA and Civil Service systems is pending in the Congress.

We would appreciate early and favorable consideration of the proposed bill. The Office of Management and Budget has advised that enactment of the proposed bill would be in accordance with the program of the President.

Sincerely,

SIGNED

Vernon A. Walters
Lieutenant General, USA
Acting Director

Enclosures

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